

VZCZCXRO7598

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DE RUEHIT #0269/01 1960809

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FM AMCONSUL ISTANBUL

TO RUEHC/SECSTATE WASHDC PRIORITY 9068

INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

RUEKJCS/DIA WASHDC PRIORITY

RUEATRS/DEPT OF TREASURY WASH DC PRIORITY

RUEAIIA/CIA WASHDC PRIORITY

RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

RHEHAAA/WHITE HOUSE WASHDC PRIORITY

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SENSITIVE  
SIPDIS

TREASURY FOR INTERNATIONAL AFFAIRS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [TU](#)

SUBJECT: KOC EXECUTIVES ASSESS TURKEY'S ECONOMY

REF: ANKARA 926

¶1. (SBU) SUMMARY: Koc executives expressed concern over the Turkish economy to Ambassador Jeffrey and CG Wiener in a July 9 meeting. While the situation has improved since earlier this year and Turkey is relatively better-positioned than its peers, consumer confidence remains low and must rebound for the economy to grow again. Continued failure to sign an IMF agreement is a concern as it leaves Turkey vulnerable to a change in market conditions, according to Koc executives. The Koc representatives doubted that the AKP can hold its parliamentary majority in Turkey 2011's elections. Comment: We believe recent economic data support the Koc executives' economic assessments. End summary.

¶2. (SBU) Ambassador Jeffrey and Consul General Wiener attended a lunch at the Istanbul headquarters of Koc Holding, Turkey's largest industrial conglomerate, on July 9 with Honorary Chairman Rahmi Koc, Chairman Mustafa Koc, Vice-Chairman Temel Atay, CEO Bulent Bulgurlu, and Deputy (and incoming) CEO Osman Durak. The Ambassador and CG were accompanied by FCS branch chief Greg Taevs and Treasury TDYer Jason Weiss.

Too early for optimism

¶3. (SBU) Koc CEO Bulent Bulgurlu noted that while the Turkish economy is performing relatively better than earlier this year, the recession has not yet reached its bottom and it is too early for optimism. Mustafa Koc described Turkey's primary challenge as restoring consumer confidence. People in Turkey have money, he suggested, noting that a recent tax cut on autos and consumer durables has spurred an uptick in consumption in these sectors. He said he hopes Turks will now start spending more. Bulgurlu noted that consumer confidence has improved in the past two months, although he agreed it remains low.

But well-positioned for recovery

¶4. (SBU) Bulgurlu does believe, however, that Turkey is better-positioned for 2010 than the rest of Europe. The primary difference is Turkey's banking sector, which he described as very sound and strong. Bulgurlu believes the banking sector will help Turkey to overcome potential further global stress, and leaves Turkey in a relatively better position than other economies whose banking sectors are not as healthy. He added that Koc's exports are doing better than six months ago and that Koc is working to diversify its

markets away from Europe and toward the Middle East and Asia, where there is still positive growth. Bulgurlu and others approved of the Turkish government's March tax cuts, which they see as having helped the private sector and prevented further unemployment, but which came later than they should have.

Turkey needs an IMF program  
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¶15. (SBU) Mustafa Koc expressed concern over Turkey's continuing lack of an IMF program. He said that last year's budget, the first implemented without the IMF since the end of Turkey's 2002-08 program, was a "disaster," and that a new program would help Turkey a great deal with its current difficult fiscal situation. He sees the government as "caught between the deep sea and the devil," as on one hand it needs an IMF program but, on the other, an IMF program would prevent it from implementing populist policies ahead of the 2011 parliamentary elections. As such, he sees the main sticking points in negotiations as political, not technical.

¶16. (SBU) Bulgurlu noted that recent low oil prices and a stable exchange rate have helped Turkey navigate the crisis. As a result, the government believes that it can handle the downturn, but this will depend on continued friendly oil prices and exchange rates. A downturn in either would pose further challenges for Turkey. As such, now is the time to agree to an IMF program, he argues. Bulgurlu hopes that the government realizes this and proceeds. Without an IMF program, it will be very difficult for the Turkish private sector to roll over the \$20 billion in loans it has coming due over the remainder of 2009. Ambassador Jeffrey noted

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that Turkey has benefited from EU and IMF relations in the past (for instance, its customs union and bank restructuring) and that certain measures under these institutions, even if politically unpopular, are beneficial to Turkey.

Electoral implications of economic crisis  
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¶17. (SBU) Mustafa Koc assessed that the AKP will fare worse in 2011 parliamentary elections than it did in 2009 local elections, and may even lose its majority, in part because of its mixed handling of the economic crisis. He said he would not be surprised if a coalition government - either AKP-MHP or CHP-MHP - resulted. While a coalition would not be the best outcome, he believes that it is necessary for the sake of democracy. Comment: Mustafa Koc is a vocal opponent of the current ruling party and he tends to be more negative than many observers regarding the AKP. His comments on the AKP's political future should be taken in this context. End Comment.

Comment  
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¶18. (SBU) Recent data on Turkey's May industrial production, capacity utilization, and exports support Bulgurlu's comments on the Turkish economy. The pace of economic contraction is decelerating, but activity is still very low, unemployment remains high, and banks have only marginally resumed lending (and only to consumers, not to other firms), a sign of continued weak confidence. Turkey's healthy banking sector positions it for a stronger recovery than its European peers.

However, failure to reach agreement on an IMF program would likely result in higher government borrowing and could crowd out the private sector, complicating recovery. The uncertainty caused by the lack of an IMF agreement despite nine months of GOT suggestions of an imminent deal probably also is a significant drag on business, banking, and consumer confidence.

WIENER